



Judicial Council of California

Administrative Office of the Courts

Trial Court Financial Policies and Procedures

Procedure No.
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VENDOR INVOICE PROCESSING

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Vendor Invoice Processing

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2.0 Purpose

The purpose of this policy and the following procedures is to provide uniform guidelines for the trial court to process and submit vendor invoices to the County Auditor Controller for payment.

3.0 Policy Statement

All trial court vendor, supplier, consultant and contractor invoices shall be routed to the trial court accounts payable department for processing. The Accounts Payable staff shall process the invoices in a timely fashion and in accordance with the terms and conditions of the purchase agreements. All invoices must be matched to the proper supporting documentation and must be approved for payment by authorized court personnel acting within the scope of their authority.

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4.0 Application

The policies and procedures described in this section apply to all trial court employees who participate in the requisition, approval, purchase, receipt, or payment for goods and services required by the court.

5.0 Definitions

The terms defined below apply to this policy and are for the express purpose of interpreting this policy.

1. **Accounts Payable.** An obligation to pay a vendor for goods or services that is created when an invoice is received and logged into the accounting system.
2. **Change Order.** Documentation of informal and/or immaterial changes to a contract, usually signed by the project managers of each party. A change order may lead to a contract amendment.
3. **Disbursement.** Payment to a vendor from a specific fund(s) or budget unit(s).
4. **Invoice.** A claim for payment submitted by a vendor for goods supplied or services rendered.
5. **Procurement.** The process of acquiring goods or services to support the operations of the trial court.
6. **Purchase Order (P.O.).** A form of contract used to document a purchase transaction (usually for goods). Purchase orders are numbered according to a system that allows them to be verified for control purposes, with fields that identify the quantity, price, and description of goods ordered, payment terms, discount factors, and date of delivery or performance.

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7. **Vendor.** A person or business that contracts to sell goods or services.
8. **Voucher.** A written document that evidences the propriety of transactions and which is normally used to indicate the accounts (codes) in which they are to be recorded.
9. **Warrant.** An order drawn by a county officer on its treasury, directing payment of a specified amount to the named person or entity. A warrant is similar to a bank check.

6.0 Text

6.1 Vendor Records

1. Before any vendor's invoice can be paid, the accounts payable department must establish a vendor file that includes at least the following information:
 - a. The vendor's name, address, and telephone number.
 - b. Name and address of vendor representative to whom payments are to be sent if different from the above.
 - c. Name, title and telephone number of the person to contact in case of an incomplete or incorrect invoice.
 - d. Description of goods provided or services performed.
 - e. Taxpayer identification number.
 - f. California resale permit (if applicable)
2. Employees who set up vendor files or have access to change vendor data shall not be permitted to approve or process invoices for payment.
3. No invoice shall be processed for payment without a vendor tax identification number.

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4. In compliance with Internal Revenue Service rules and regulations, the trial court shall ensure that a Form 1099 MISC is issued to all non-employees who meet the criteria for independent contractors established by the IRS. In general, the court must report payments that meet the following four conditions:
 - a. Payment is made to someone who is not an employee.
 - b. Payment is made for services in the course of trade or business (including government agencies and nonprofit organizations).
 - c. Payment is made to an individual, partnership, estate, or in some cases, a corporation.
 - d. Payments made total at least \$600 during the year.
 - e. Payment for professional services such as fees to attorneys, accountants, and architects require the issuance of a Form 1099 MISC. Forms must be issued to each qualifying independent contractor by January 31 of each year and a copy must be sent to the IRS by February 28 of each year.

5. Under no circumstance will sales tax for a state other than California be approved for payment. If the vendor is located outside of California, a valid California resale permit issued by the California Board of Equalization must be submitted prior to payment of all invoices for sales taxes levied against tangible personal property. Local offices of the Board of Equalization will confirm the validity of any resale permits submitted.

6.2 Document Routing

6.2.1 Routing of Vendor Invoices

1. The trial court shall direct all vendors and contractors to submit invoices to one central location for processing. For the majority of the trial courts, this would be the court accounts payable department.

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2. For trial courts with larger organizations or larger territories to cover, there may be several regional accounts payable processing offices. Vendors may be directed to submit their invoices to these locations for preliminary review and batching of documents.
3. The Court Executive Officer or an authorized representative must approve all invoices for payment.
4. Accounts payable data entry may be the responsibility of the court accounts payable department, the county accounts payable department, or a qualified accounting service provider hired by the court. Payments may be issued by the county, the trial court, or other financial institution (third party).

6.2.2 Routing of Related Documents

1. As they are generated, other pertinent documents must also be routed to the court accounts payable department or to other designated accounts payable processing locations. Original copies of purchase orders, blanket purchase order releases, contracts, order forms, approved requisitions, purchase card ordering logs, receipts, packing slips, and all other appropriate documentation related to the acquisition of goods and services for court related business must be provided to accounts payable.
2. The accounts payable department will maintain these documents in a central file to be matched against the related vendor invoices and claims.
3. This information may also be maintained in electronic form and accessible through an on-line purchasing system. The accounts payable staff may utilize on-line information to process invoices. However, original documents are still required as supporting evidence when invoices are batched for approval. Original

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documents must also be retained in compliance with the court's record retention policy.

6.2.3 Payment Authorization

1. The trial court shall establish and maintain an authorization matrix that lists employees who are permitted to commit court resources and approve invoices for payment.
2. The authorization matrix shall list the dollar limits and scope of authority of each authorized employee. For example, only certain court officials will be allowed to approve transactions such as the acquisition of fixed assets, hiring of consultants, etc. The authorization matrix should indicate such conditions.
3. The authorization matrix shall be updated on an annual basis or as required by changes in personnel.
4. Copies of the authorization matrix shall be provided to the court accounts payable department, county accounts payable department, outside accounting service provider, etc., as appropriate.

6.3 Invoice Processing

6.3.1 Preparing Invoices for Processing

1. Upon receiving the vendor invoices, accounts payable will immediately stamp the documents with the current date.
2. Invoices will be sorted by their payment due dates and maintained in a special file for processing.

6.3.2 Document Matching

1. At the scheduled time and depending on the court's invoice payment cycle, an accounts payable employee will match the vendor invoices to all appropriate supporting documentation. The court will adopt the "three point match" procedure to process vendor invoices.
2. A "three point match" procedure consists of matching a vendor invoice to a purchase agreement and to proof of receipt and acceptance of goods or services. For example:
 - a. All details of the invoice, including description of goods and services ordered, quantities invoiced, unit prices billed and other applicable charges must be matched to the details and terms and conditions of the court's purchase agreements or contracts.
 - b. All invoice details, including description of goods or services ordered and quantities invoiced must be matched to the details of packing slips, shipping orders, receiving reports or other forms of acknowledgement of delivery of products or completion of work by an authorized court employee.
3. Vendor invoices shall not be processed for payment without completing the "three point match" procedure. If one element is missing (for example there is no evidence of receipt of goods and services), the accounts payable employee should contact the responsible court employee to obtain the appropriate documents or secure a signature of approval.

6.3.3 Review for Accuracy of Invoice

1. Calculations and price extensions shown on the invoices shall be audited to ensure their accuracy.

2. Vendor name, address, billing address, vendor number, federal ID number and all other pertinent information shall be reviewed against the information set up in the vendor master file. All discrepancies shall be reported to the appropriate court or county buyer and the court employee who authorized the transaction.
3. Accounts Payable personnel must report discrepancies in the vendor master file to the Court Fiscal Officer or other designated officials and secure appropriate approval prior to correcting any information.

6.3.4 Problem Resolution

1. Discrepancies between vendor invoices and trial court purchase orders or contracts may arise due to:
 - a. Vendor invoicing errors.
 - b. Vendor invoice format that does not allow accounts payable to make a match between the invoice and the purchase authorization.
 - c. Data entry errors made at the time the purchase information was entered into the trial court purchasing system.
 - d. Changes in the purchase information approved by the trial court but not documented in the system or not reflected by a change order.
2. When discrepancies are detected, an invoice will not be processed for payment. The accounts payable employee shall report the errors to the appropriate buyer as well as the requestor of the goods and services.
3. Accounts Payable personnel shall not contact vendors directly to resolve invoicing problems, negotiate settlements, etc. Accounts payable personnel may only provide factual information regarding

payment status to vendors or contact vendors to verify unclear information provided on invoices or obtain missing information (e.g., tax identification number).

4. The trial court shall designate the person responsible for investigating discrepancies and making necessary corrections prior to invoice payment. This may be the individual who performed the buying activities (usually a court or county buyer), the person who originally requested the goods or services, or another party. Coordination of corrective actions will be required between with the court employee requesting the goods or services, the court employee approving the purchase, accounts payable, and the vendor.
5. Problems that cannot be quickly corrected should be referred to the Court Executive Officer/Fiscal Manager for resolution.

6.3.5 Invoice Error

1. Not all errors and discrepancies will require the court staff to engage in problem resolution activities. Some errors may be immaterial and inconsequential to the purchase agreement. For example, vendor invoices may show actual freight charges or handling charges that differ slightly from the amount originally estimated at contract issuance. The trial court may allow vendor invoices with these types of discrepancies to be processed without requiring extra processing steps for error correction.
2. The trial court may establish an allowance to be applied to vendor invoicing errors or discrepancies. The allowance may be a percentage (usually .1% to .5%) of the total purchase order amount or a small fixed dollar amount. The court shall document the actual allowance percentage and provide this information to internal or external auditors upon request. This can be used to

override immaterial errors. The reason for establishing such an allowance is to avoid unnecessary costs. The cost to the court for taking corrective actions may exceed the benefits derived thereof. However, Accounts Payable personnel should not interpret the allowance as a mean to tolerate irresponsible vendors. Vendors with repeated invoicing errors should be identified and reported to the appropriate buyer and responsible court manager for problem resolution.

6.3.6 Account Coding

1. It is important that all expenditures are recorded in the appropriate accounts. To ensure that transactions are recorded correctly, account codes shall be entered on the purchase requisitions that initiate transactions. The accounts payable department shall only be responsible for assigning account codes for transactions that do not require encumbrances (e.g., purchase card transactions, warrant requests).
2. If there is any question regarding the assignment of an account code, Accounts Payable will contact the person who initiated the purchase requisition to confirm that the correct account is being charged.

6.3.7 Invoice Batching

1. Accounts Payable shall batch small groups of invoices together for approval and for warrant processing. Each batch of invoices will have a cover sheet that provides a batch number, a summary list of the invoices included, the total number of invoices, and a batch total showing the total dollar amount of all the invoices submitted.
2. Batches shall contain only invoices that have been properly processed and that are accompanied by information documenting purchase authorization and receipt.

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3. Invoices shall be batched on at least a weekly basis.
4. Each batch should have a control total to be verified against the data subsequently entered into the accounting system.
5. The batched invoices will be submitted to the designated court official(s) (Court Executive Officer, Court Fiscal Officer, Chief Financial Officer, Accounting Manager, etc.) for review and approval. Depending on the dollar amount of the invoices and the level of authority established for each court official, additional approvals may also be required.

6.4 Payment Approval

1. Designated court officials with payment approval authority shall review all batched invoices for:
 - a. Propriety of the transactions.
 - b. Accuracy of the records submitted.
 - c. Reasonableness of the expenditures.
2. Designated court officials shall act within the scope of their authority when approving invoices for payment. If the dollar amount or nature of a purchase exceeds an individual's authority, the next level of authority shall be consulted and appropriate approval secured before releasing the invoice for payment.
3. Court officials authorized to approve invoices shall not approve payment of their own purchases. Another level of approval will be required.
4. Designated court officials shall ensure that sufficient funds are available in the trial court accounts for the County Auditor-Controller to issue payment.

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5. Invoices that have been properly processed and approved according to the applicable criteria shall be forwarded to the County Auditor-Controller, the trial court accounts payable department, or other financial institution (third party) for payment.

6.5 Types of Payment

1. The following list shows the various types of payments that the trial court may authorize:
 - a. **Final payments** are made for completed and accepted goods and services.
 - b. **Partial payments** are made for completed and accepted supplies or services that are only a portion of the total required deliveries (e.g., orders with items on back orders, missing components of an assembly, etc.).
 - c. **Progress payments** are made to a vendor as work progresses under a purchase order or contract.
 - d. **Milestone payments** are made to the vendor after the completion of specific tasks agreed to and set forth in the contract between the vendor and the trial court (e.g., long term information services contract with specific deliverables and timetables, consultant engagements, etc.).
 - e. **Advance payments** are made to a vendor prior to performance of a purchase order or contract (e.g., registration fees for a conference, educational programs, etc.). Advance payments are only made in unusual circumstances and are not permitted for time and materials service contracts or for the purchase of goods.
2. As necessary, designated court officials shall review the terms of applicable contracts or purchase agreements to ensure that payments are made according to contract specifications.

6.6 Terms of Payment

The Court may issue its own purchase orders and contracts or use the county purchase orders and contracts. If the county provides invoice payment services for the trial court, the court shall establish standard terms of payment that are consistent with the county's payment cycle. If the trial court uses an outside service provider to pay invoices, the court will have more flexibility in establishing a convenient payment cycle.

6.7 Payments

1. Under current state regulations, the Trial Court Operations Fund may be established either: (1) in the county treasury, or (2) outside the county treasury with Judicial Council approval.¹ The procedures used by the trial court to issue payments depend on how the Trial Court Operations Fund is established.
2. If the Trial Court Operations Fund is established in the county treasury, the county must issue payments at the trial court's direction. In this case, the trial court shall ensure that the county:
 - a. Issues payments on the court's behalf when directed by authorized court personnel. The trial court's authorization matrix shall be provided to the county for approval verification. All checks that exceed \$15,000 shall require two authorized signatures unless they are made payable to the State Treasurer or another state agency. The trial court may establish more restrictive signature requirements at its discretion.
 - b. Has a method of accounting for all payments issued on behalf of the court. The court should require the county or its service provider to provide reports such as check or warrant registers, bank reconciliation reports, etc., for reconciliation to court records.

¹ Government Code 77009 (a) provides that the county shall establish the Trial Court Operations Fund in the county treasury. Government Code 77009 (j) states that the Judicial Council may establish the Trial Court Operations Fund separate from the county treasury, other provisions of law notwithstanding.

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- c. Immediately posts payments to the check or warrant register.
 - d. Has a method of accounting for voided or missing checks or warrants and for notifying the court accordingly.
3. After the county issues payments, the trial court accounts payable department shall reconcile the processed invoices to the corresponding items on the check or warrant register (on-line or hard copy). All discrepancies must be researched and cleared on a timely basis.
 4. If the Trial Court Operations Fund is established outside the county treasury, the requirements of Procedure No. FIN 2.03 – Bank Accounts, apply to all payments made by the trial court.

6.8 Record Retention

1. If the trial court uses the county to provide accounting services, the county may require the court to provide all original copies of invoices, purchase authorizations, and records of receipt when invoices are submitted for payment. It is expected that the county will retain this information along with the associated warrant(s) in its files. The trial court shall work with the county to define the court's ownership of the files and a practical approach to accessing these files, when necessary.
2. The trial court's objective should be to avoid maintaining unnecessary duplicate files. However, this policy recognizes that, for practical reasons, the trial court may elect to maintain duplicate sets of records. In such case, the trial court should consider maintaining duplicates of current fiscal year information only.

7.0 Associated Documents

None